

Carleton College

Financial Statements

June 30, 2004

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Report of Independent Auditors

To the Board of Trustees
Carleton College

In our opinion, the accompanying balance sheet and the related statements of activities and changes in net assets, and cash flows present fairly, in all material respects, the financial position of Carleton College (the "College") as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the College's 2003 financial statements; and in our report dated September 5, 2003, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



September 10, 2004

Carleton College
Balance Sheet
June 30, 2004, with Comparative Totals for June 30, 2003

	General Operations	Physical Capital	Financial Capital	2004 Totals	2003 Totals
Assets					
Cash and cash equivalents	\$ 8,253,341	\$ 1,640,495	\$ -	\$ 9,893,836	\$ 5,563,155
Receivables, net					
Pledges	-	-	3,485,602	3,485,602	4,355,248
Government	4,137,256	-	-	4,137,256	3,753,673
Other	1,214,805	-	-	1,214,805	995,655
Inventories, prepaid expenses and deferred charges	1,755,392	-	-	1,755,392	1,847,537
Loans to students	6,364,447	-	-	6,364,447	6,378,603
Deposits with bond trustee	-	206,667	-	206,667	203,279
Investments	25,976,797	-	554,206,577	580,183,374	517,575,488
Property, plant and equipment, net of depreciation	-	114,727,020	-	114,727,020	114,188,521
Total assets	<u>\$ 47,702,038</u>	<u>\$ 116,574,182</u>	<u>\$ 557,692,179</u>	<u>\$ 721,968,399</u>	<u>\$ 654,861,159</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable	\$ 1,843,257	\$ -	\$ -	\$ 1,843,257	\$ 2,563,290
Accrued expenses	6,523,323	-	-	6,523,323	5,893,005
Deferred income and deposits	12,714,849	-	-	12,714,849	10,302,244
Annuities payable	-	-	21,864,563	21,864,563	18,128,731
Bonds payable	-	65,088,799	-	65,088,799	66,047,937
Interfund loans	-	5,440,000	(5,440,000)	-	-
Refundable government grants for student loans	5,156,146	-	-	5,156,146	5,134,119
Total liabilities	<u>26,237,575</u>	<u>70,528,799</u>	<u>16,424,563</u>	<u>113,190,937</u>	<u>108,069,326</u>
Net assets					
Unrestricted					
Operations	2,343,634	-	-	2,343,634	2,728,125
Student loan funds	3,245,521	-	-	3,245,521	3,111,672
Plant funds	-	(261,983)	-	(261,983)	(1,722,809)
Net investment in plant	-	45,833,584	-	45,833,584	44,320,087
Appreciation on endowments	-	-	289,988,768	289,988,768	244,379,089
Funds functioning as endowment	-	-	60,742,444	60,742,444	59,130,232
Total unrestricted net assets	<u>5,589,155</u>	<u>45,571,601</u>	<u>350,731,212</u>	<u>401,891,968</u>	<u>351,946,396</u>
Temporarily restricted					
Operations	15,875,308	-	-	15,875,308	20,121,795
Plant funds	-	473,782	-	473,782	625,502
Appreciation on true endowment	-	-	38,437,988	38,437,988	32,976,374
Funds functioning as endowment	-	-	2,906,266	2,906,266	3,217,397
Split interest funds	-	-	19,538,005	19,538,005	15,352,118
Total temporarily restricted net assets	<u>15,875,308</u>	<u>473,782</u>	<u>60,882,259</u>	<u>77,231,349</u>	<u>72,293,186</u>
Permanently restricted					
True endowments	-	-	122,610,388	122,610,388	116,535,603
Split interest fund	-	-	7,043,757	7,043,757	6,016,648
Total permanently restricted net assets	<u>-</u>	<u>-</u>	<u>129,654,145</u>	<u>129,654,145</u>	<u>122,552,251</u>
Total net assets	<u>21,464,463</u>	<u>46,045,383</u>	<u>541,267,616</u>	<u>608,777,462</u>	<u>546,791,833</u>
Total liabilities and net asset	<u>\$ 47,702,038</u>	<u>\$ 116,574,182</u>	<u>\$ 557,692,179</u>	<u>\$ 721,968,399</u>	<u>\$ 654,861,159</u>

The accompanying notes are an integral part of these financial statements.

Carleton College
Statement of Activities and Change in Net Assets
Year Ended June 30, 2004, with Comparative Totals for June 30, 2003

	General Operations		Physical Capital		Financial Capital			2004 Totals	2003 Totals
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and other additions									
Tuition and fees	\$ 55,131,371	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,131,371	\$ 51,490,840
Room and board	8,641,529	-	-	-	-	-	-	8,641,529	8,185,403
Scholarships	(17,545,615)	-	-	-	-	-	-	(17,545,615)	(15,485,440)
Net student fees	46,227,285	-	-	-	-	-	-	46,227,285	44,190,803
Private gifts and pledges	6,033,129	1,721,759	301,000	590,845	1,243,923	3,984,359	6,070,076	19,945,091	20,337,012
Government reimbursements	758,976	-	-	-	-	-	-	758,976	1,043,325
Interest and dividends	266,488	137,085	3,598	-	2,030,045	5,084,297	-	7,521,513	9,288,630
Net realized gain (loss)	-	-	-	-	41,042,974	17,331,671	-	58,374,645	(33,547,818)
Net unrealized gain	-	-	536,660	-	9,395,665	6,970,097	-	16,902,422	33,593,038
Net change in split interest	-	-	-	-	-	(5,532,810)	1,027,109	(4,505,701)	(23,233)
Bookstore, rents and other	3,532,571	181,936	144,038	(312,500)	172,662	-	4,709	3,723,416	3,777,744
Subtotal revenue	56,818,449	2,040,780	985,296	278,345	53,885,269	27,837,614	7,101,894	148,947,647	78,659,501
Investment returns utilized	6,859,003	18,027,831	-	-	(6,859,003)	(18,027,831)	-	-	-
Net assets released from restrictions	24,592,886	(24,315,096)	430,065	(430,065)	195,625	(473,415)	-	-	-
Total revenues and other additions	88,270,338	(4,246,485)	1,415,361	(151,720)	47,221,891	9,336,368	7,101,894	148,947,647	78,659,501
Expenses									
Instruction	29,330,236	-	6,903,258	-	-	-	-	36,233,494	36,046,717
Academic support									
Library	3,784,292	-	219,172	-	-	-	-	4,003,464	4,013,043
Other	6,028,621	-	(285,933)	-	-	-	-	5,742,688	5,758,649
Student services	8,304,456	-	3,534,269	-	-	-	-	11,838,725	12,383,812
Institutional support									
Administration	4,167,796	-	2,742	-	-	-	-	4,170,538	3,895,500
External relations	3,099,507	-	-	-	-	-	-	3,099,507	3,647,005
Fund raising	3,190,666	-	56,498	-	-	-	-	3,247,164	3,204,112
General	4,827,781	-	210,731	-	-	-	-	5,038,512	4,519,682
Plant operations	9,618,598	-	(9,618,598)	-	-	-	-	-	-
Debt	3,938,018	-	(3,938,018)	-	-	-	-	-	-
Auxiliary enterprises	12,231,010	-	1,356,916	-	-	-	-	13,587,926	14,965,220
Total expenses	88,520,981	-	(1,558,963)	-	-	-	-	86,962,018	88,433,740
Change in net assets	(250,643)	(4,246,485)	2,974,324	(151,720)	47,221,891	9,336,368	7,101,894	61,985,629	(9,774,239)
Net assets									
Beginning of year	5,839,798	20,121,793	42,597,277	625,502	303,509,321	51,545,891	122,552,251	546,791,833	556,566,072
End of year	\$ 5,589,155	\$ 15,875,308	\$ 45,571,601	\$ 473,782	\$ 350,731,212	\$ 60,882,259	\$ 129,654,145	\$ 608,777,462	\$ 546,791,833

The accompanying notes are an integral part of these financial statements.

Carleton College
Statement of Cash Flows
Years Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Change in net assets	\$ 61,985,629	\$ (9,774,239)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	6,259,617	6,099,120
Net realized and unrealized gain on investments	(75,277,067)	(45,220)
Private gifts for long-term investments	(12,225,626)	(13,675,082)
Bond discount amortized	15,862	15,862
Changes in operating assets and liabilities		
Receivable, net - pledges	869,646	5,705,918
Receivable, net - government	(203,749)	(690,142)
Receivable, net - other	(398,984)	(97,018)
Inventories, prepaid expenses and deferred charges	92,145	(102,368)
Loans to students	14,156	279,444
Accounts payable	(720,033)	(559,507)
Accrued expenses	630,318	(277,168)
Deferred income and deposits	2,412,605	2,947,218
Refundable government grants for student loans	22,027	205,932
Annuities payable	3,735,832	1,362
Net cash used in operating activities	<u>(12,787,622)</u>	<u>(9,965,888)</u>
Cash flows from investing activities		
Purchase of investments	(727,378,259)	(435,093,264)
Proceeds from sale of investments	740,047,440	445,375,349
Acquisition of property, plant and equipment	<u>(6,798,116)</u>	<u>(11,803,878)</u>
Net cash provided by (used in) investing activities	<u>5,871,065</u>	<u>(1,521,793)</u>
Cash flows from financing activities		
Changes in deposits with bond trustee	(3,388)	5,449
Proceeds from private gifts for long-term investment	12,225,626	13,675,082
Principal payments	<u>(975,000)</u>	<u>(930,000)</u>
Net cash provided by financing activities	<u>11,247,238</u>	<u>12,750,531</u>
Net increase in cash and cash equivalents	4,330,681	1,262,850
Cash and cash equivalents		
Beginning of the year	<u>5,563,155</u>	<u>4,300,305</u>
End of the year	<u>\$ 9,893,836</u>	<u>\$ 5,563,155</u>

Additional disclosure

The College paid \$2,385,326 and \$2,559,849 in interest during fiscal years 2004 and 2003, respectively.

Noncash disclosure

As of June 30, 2004 and 2003, the College had \$400,284 and \$233,945, respectively, of acquisitions of land, building and equipment in both property, plant and equipment, net of depreciation and accounts payable.

The accompanying notes are an integral part of these financial statements.

Carleton College

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

Accrual Basis

The financial statements of Carleton College (the "College") have been prepared on the accrual basis of accounting.

Basis of Presentation

The financial statements include certain prior year summarized comparative information in total and by net asset class. Such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2003.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported as unrestricted, temporarily restricted, or permanently restricted and within those classifications the College has chosen to reflect three categories: general operations, physical capital, and financial capital. Further explanation is as follows:

- Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.
- Temporarily restricted - Net assets whose use by the College is subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all of, or part of, the income earned on related investments for general or specific purposes.
- Operations - Net assets arising from the annual, recurring flow of revenue and expenses. Operations reflect the annual operating budget and include gifts and the income from endowed funds that support operations.
- Physical plant - Net assets arising from gifts for building projects, funds internally designated for physical plant maintenance, and plant debt service, and the accumulated investment in physical assets, net of depreciation and borrowed funds.
- Financial capital - Net assets arising from gifts and the related gains on investments that are held as endowment and the split interest gifts and their related gains.

Revenues are reported as increases in unrestricted net assets unless use of the revenue is restricted by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Temporarily restricted net assets for which donor-imposed restrictions are met in the current period are reclassified to unrestricted net assets and reported as assets released from restrictions.

Carleton College
Notes to Financial Statements
June 30, 2004

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity.

Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing money market accounts and short-term investments with an original maturity of less than three months.

Investments

Investments are stated at quoted market value or the value provided by an external investment manager. Changes in quoted market value are recorded as unrealized gains or losses in the period of change.

Endowment and board-designated funds are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Under this policy, a portion of realized and unrealized gains accumulated, in addition to accumulated net investment income, are used to support operations. Any such gains used to support operations are utilized in accordance with the same restrictions, if any, imposed by donors on the use of income earned by the endowment and similar funds.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (3 to 40 years). Expenditures for new construction, interest on construction, major renewals and replacements and equipment costing over \$10,000 are capitalized. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the assets' estimated useful life.

Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

Gift Annuity Contracts

Annuities payable represent the College's liability under annuity contracts with donors. Specific contract terms vary by donor. The liability is established at the time of the contribution using life expectancy actuarial tables and discount rates and is revalued annually. Actual gains and losses resulting from the annual revaluation of annuity obligations are reflected as temporarily or permanently restricted, consistent with the method used to initially record the contributions. The basis used to recognize the asset is fair value.

Carleton College
Notes to Financial Statements
June 30, 2004

Income Taxes

The College qualifies as a tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and similar statutes of Minnesota law. The College is subject to federal income tax only on net unrelated business income under the provisions of Section 501(c)(3) of the Internal Revenue Code. The College has no obligation for unrelated business income tax. Accordingly, no provisions for federal or state income taxes are required.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Risks and Uncertainties

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values will occur in the near term and that such changes could materially affect the financial statements.

Concentration of Credit Risk

Financial instruments, which potentially subject the College to concentrations of credit risk, consist primarily of cash accounts. Cash accounts are generally held in federally insured banks. As of June 30, 2004, the College exceeds the FDIC limit by \$2,252,565.

Reclassification

Certain prior year financial information has been reclassified to conform with the 2004 presentation. The reclassifications had no impact on previously reported net assets.

2. Long-Term Investments

The long-term investments include funds traditionally considered the endowment of the College as well as assets of deferred gifts, funds designated for debt service and funds temporarily restricted for building projects.

Allocations at market value are as follows:

	2004	2003
Permanent endowment	\$ 122,031,052	\$ 115,397,753
Gains related to permanent endowment	229,577,003	193,410,325
Funds functioning as endowment	60,742,444	59,130,233
Gains related to funds functioning as endowment	98,849,753	83,945,139
	<u>511,200,252</u>	<u>451,883,450</u>
Split-interest agreements	48,446,324	39,497,495
Other invested assets	20,536,798	26,194,543
	<u>580,183,374</u>	<u>\$ 517,575,488</u>
Total long-term investments		

Carleton College
Notes to Financial Statements
June 30, 2004

The assets of the long-term investments include:

	June 30, 2004		June 30, 2003	
	Cost	Market Value	Cost	Market Value
Cash and short-term investments	\$ 34,848,354	\$ 35,138,833	\$ 18,357,836	\$ 18,712,032
Bonds	108,298,993	113,135,166	111,913,310	123,920,957
Marketable equity securities	232,963,608	289,554,225	234,966,572	275,411,011
Private Capital	52,517,116	42,431,023	50,808,153	37,945,616
Marketable Alternatives	62,015,633	68,963,550	29,406,515	37,033,148
Other	28,228,379	30,960,577	24,838,194	24,552,724
	<u>\$ 518,872,083</u>	<u>\$ 580,183,374</u>	<u>\$ 470,290,580</u>	<u>\$ 517,575,488</u>

The majority of the long-term investment assets are pooled on a market value basis with each individual fund subscribing to or disposing of shares on the basis of the market value per share at the beginning of the calendar quarter within which the transaction takes place. At June 30, 2004, the endowment and similar funds owned 37,343,069 shares and the annuity and life income funds owned 1,263,014 shares, each share having a market value of approximately \$13.4720. At June 30, 2003, the endowment and similar funds owned 36,722,057 shares and the annuity and life income funds owned 1,138,514 shares, each having a market value of approximately \$12.1166. In addition, included in investments is \$7,984,261 and \$6,882,330 of separately invested endowment funds, \$31,560,949 and \$25,756,928 of split-interest agreement gifts primarily comprised of annuities, charitable remainder trusts and pooled income funds, and \$20,536,797 and \$26,194,543 of other invested assets at June 30, 2004 and 2003, respectively.

The majority of private capital investments are carried at the estimated fair value provided by the general partners of these investment partnerships or funds as of March 31, 2004 and 2003, adjusted for cash and securities distributions as well as capital calls.

The College believes that the carrying amount of its private capital investments is a reasonable estimate of fair value as of June 30, 2004 and 2003. Because private capital investments are not publicly traded and are expected to be held for several years, however, the estimated value is subject to uncertainty. The amount of gain or loss associated with these investments is reflected in the accompanying financial statement using the equity method of accounting.

At June 30, 2004, the College had outstanding commitments of \$69,200,000 to private capital investments that have not yet been drawn down by the general partners of these funds. Typically, committed capital is drawn down and invested over a several year period. In the past, draw downs on outstanding commitments have been funded by distributions from the private capital portfolio.

Carleton College
Notes to Financial Statements
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3. Investment Income

The College utilizes the total return method of accounting for income from its investments. Under this method, a spending rate per share is established which is considered to be a prudent use of the return on investments, consisting of both yield (dividends and interest) and realized and unrealized appreciation. Each year, the spending rate per share is increased by 4.5% from the previous year, independent of the market value changes in investments. Due to the market value decline the Board of Trustees approved a variance over a three-year period to return to a level of 4.5% of current market value. For the year ended June 30, 2004, the spending amount per share was \$0.6710, down from \$0.7899 as of June 30, 2003.

Investment expense totaled \$3,080,270 and \$2,811,513 for the years ended June 30, 2004 and 2003, respectively, and is netted with investment income.

4. Property, Plant and Equipment

Property, plant and equipment as of June 30, 2004 and 2003, are as follows:

	2004	2003
Land and real estate improvements	\$ 3,010,324	\$ 3,010,324
Buildings	139,076,393	136,846,342
Equipment and books	59,674,264	55,106,199
	<u>201,760,981</u>	<u>194,962,865</u>
Less: Accumulated depreciation	(87,033,961)	(80,774,344)
	<u>\$ 114,727,020</u>	<u>\$ 114,188,521</u>

5. Bonds Payable

Bonds payable at June 30, 2004 and 2003, are as follows:

	2004	2003
Minnesota Higher Education Facilities Authority (MHEFA)		
First Mortgage Revenue Bond Series T	\$ 1,425,000	\$ 1,545,000
Variable and Fixed Rate Demand Revenue Bonds		
Series 3L1, 2	20,300,000	20,300,000
Revenue bonds Series 4N	20,570,000	21,425,000
Revenue bonds Series 5G	23,000,000	23,000,000
	<u>65,295,000</u>	<u>66,270,000</u>
Less: Unamortized discount	(206,201)	(222,063)
	<u>\$ 65,088,799</u>	<u>\$ 66,047,937</u>

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June 30, 2004

The Series T bonds bear interest at 5.625% per annum payable semi-annually, and mature March 1, 2007. The financing was structured through leases with MHEFA under the terms of which the College has an option to purchase the facilities at the termination of the leases for \$500. The transactions have been accounted for as capitalized leases with the related assets and liabilities being reflected in the statement of financial position. The Series T bonds are collateralized by a first mortgage on the facilities for which the funds were used and first liens and pledge of the net revenues derived from the operations of these facilities.

The Series 3-L1, in the amount of \$10,000,000, bear interest at a fixed rate of 5.75% and matures November 1, 2012. The Series 3-L2, in the amount of \$10,300,000, bears a variable rate of interest and matures November 1, 2012. The interest rate was 0.92% and 0.85% at June 30, 2004 and 2003, respectively. The proceeds from these bonds were used to finance construction projects. These bonds require the College to comply with various covenants, including maintaining a positive change in unrestricted net assets for at least two of the preceding three fiscal years.

Revenue Bonds, Series 4N, bear interest at a fixed rate of interest ranging from 5.0% to 5.5%. Principal and interest is payable semi-annually. The Series 4N mature November 1, 2018. The proceeds from these bonds were used to finance construction projects. These bonds require the College to comply with various covenants, including specifying a maximum amount of bonds outstanding of \$150,000,000.

Revenue Bonds, Series 5G, bear interest at a variable rate, with interest payable monthly. The interest rate was 0.92% and 0.85% at June 30, 2004 and 2003, respectively. The interest rate on these bonds may be converted to a fixed rate at the direction of the College, at which time interest will be payable semi-annually. Interest and principal payments are required to be deposited to a Bond and Interest Sinking fund as they become due. This bond requires the College to comply with various covenants, including maintaining a positive change in unrestricted net assets, adjusted for certain items, for at least two of the preceding three fiscal years.

The College has deposited \$30,000 for Series T bonds in general bond reserve accounts of the MHEFA for the purpose of collateralizing the College's bonds issued by MHEFA. The Series T issue contains a sinking fund requirement of \$120,000 per year continuing through 2006. The College must also maintain a debt service reserve account for Series T bonds with qualified reserve investments having market values equal at least to 110% of the principal amount of the bonds outstanding less any balances in the sinking funds. Such investments, whose market value aggregates \$1,707,634 and \$2,268,380 at June 30, 2004 and 2003, respectively, have been recorded as unrestricted investments of the College.

The maturities of debt in each of the five years subsequent to June 30, 2004, are as follows:

2005	\$ 1,020,000
2006	1,065,000
2007	2,185,000
2008	1,055,000
2009	1,115,000
Thereafter	58,855,000
	<u>\$ 65,295,000</u>

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Notes to Financial Statements
June 30, 2004

Effective for ten years commencing on July 1, 1998 and October 1, 1998, the College entered into two interest rate swap agreements with Wells Fargo Bank Minnesota (the "Bank") under which the College makes payment to the Bank whenever the floating PSA Municipal Swap Index (the "Index") lies below the agreed-upon fixed interest rate and the Bank pays the College if ever the Index lies ahead the fixed rate. The notional amount of each agreement is \$5,150,000, corresponding, in total, to the \$10,300,000 outstanding MHEFA Series 3L-2 variable rate bonds. Fixed rates are 4.47% and 4.12%, respectively, and the all-in interest rates of the College are expected to average 4.32% and 3.97% assuming that "spread" between the interest rate paid on the MHEFA bonds continue to average 15 basis points less than the Index.

6. Retirement Plan

Substantially all nonunion employees of the College participate in an arrangement whereby the individuals and the College contribute to individual employee TIAA-CREF retirement accounts which fund individual retirement benefits.

Expenses for the College's share of the contributions were \$4,086,403 and \$4,026,033 in 2004 and 2003, respectively.

7. Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable and revenue in the appropriate net asset category.

Pledges receivable are summarized as follows at June 30, 2004 and 2003:

	2004	2003
Unconditional promises expected to be collected in		
Less than one year	\$ 1,381,630	\$ 2,424,896
One year to five years	2,504,840	2,214,434
Over five years	414,403	511,000
Less: Discount	(815,271)	(795,082)
	<u>\$ 3,485,602</u>	<u>\$ 4,355,248</u>

8. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents and pledges receivable approximate fair value because of the short maturity of these financial instruments. The carrying values of investments, which are the fair value, are based upon values provided by an external investment manager or quoted market values.

Student loans receivable consist primarily of loans made to students under U.S. government loan programs. The loans are stated at net realizable value in the accompanying statements. It is not practicable to estimate the fair value of these receivables since they contain federally-mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

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The carrying amount of bonds payable approximates fair value because these financial instruments bear interest at rates which approximate current market rates for bonds with similar maturities and credit quality.

9. Expenses by Object

The expenses of \$86,962,018 reported by function on the Statement of Activities and Changes in Net Assets are summarized by object as follows:

	General Operations Unrestricted	Physical Capital Unrestricted	Total
Salaries and wages	\$ 38,651,619	\$ -	\$ 38,651,619
Employee benefits	11,779,901	-	11,779,901
Supplies and equipment	9,333,157	(3,365,922)	5,967,235
Utilities and buildings	11,015,732	(3,477,658)	7,538,074
Debt service	3,938,018	(975,000)	2,963,018
Depreciation	-	6,259,617	6,259,617
Food service	4,124,494	-	4,124,494
Travel	2,255,975	-	2,255,975
Other	7,422,085	-	7,422,085
	<u>\$ 88,520,981</u>	<u>\$ (1,558,963)</u>	<u>\$ 86,962,018</u>